

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE GOSHEN
UTILITIES, INC., SEWER DIVISION

) CASE NO. 89-081

O R D E R

On March 31, 1989, Goshen Utilities, Inc., Sewer Division ("Goshen"), filed an application seeking approval to adjust its rates for sewer service. Goshen proposed to increase its annual operating revenues by \$100,736, an increase of 76 percent over test-period revenues from rates of \$132,966. Goshen was notified by the Commission that its application was deficient in that notification to its customers was not made by direct mailing as required by KRS 278.185. Goshen certified to the Commission that the notice defect was cured and the 10 months prescribed by KRS 278.190 for Commission action on a rate application began to run on April 28, 1989.

Parties granted full intervention in this proceeding were the Attorney General of Kentucky, by and through his Utility and Rate Intervention Division ("AG"), and the North Oldham Homeowners Organization.

PROCEDURAL HISTORY

The Commission's Staff ("Staff") conducted a field review of Goshen's test-period financial records at the utility's office and issued its report on October 24, 1989 recommending Goshen be

allowed to increase its annual operating revenues by \$31,775, a 24 percent increase above Goshen's existing test-period revenues. All parties of record were notified by letter to file written comments and written requests for a hearing no later than November 8, 1989. Comments were filed by Goshen and the AG; no comments were filed by the North Oldham Homeowners Organization.

Goshen raised five areas of concern in its comments to Staff's report. Those areas were: 1) consulting fees; 2) fringe benefits relating to the consulting fees; 3) aerator repairs; 4) interest expense; and 5) depreciation. Goshen also requested an informal conference with Staff. In his comments, the AG was ". . . generally unopposed to the Public Service Commission staff recommendation in Case No. 89-081. . ." ¹ but questioned the level of compensation paid to the owner/manager of Goshen.

Pursuant to Goshen's request to meet to discuss those areas identified in Staff's report, an informal conference was held on November 27, 1989. All parties of record were notified of the conference; Goshen, the AG, and Staff participated. It was agreed at the conference that Staff would return to Goshen's offices and re-examine certain invoices related to the interest expense issue raised by Goshen. All participants were advised at the conference that Staff might prepare an amendment to its report after examining the invoices and after Goshen filed detailed cost estimates concerning needed aerator repairs.

¹ Comments of the Attorney General filed November 2, 1989 at 1.

An amendment to the Staff Report was filed into the record on January 8, 1990 modifying the original report in the areas of depreciation and interest expense and recommending a revenue increase of \$42,359, a 32 percent increase over test-period revenues. A second informal conference was held to discuss the amendment on January 16, 1990. Following the informal conference, Goshen filed a motion requesting the Commission to enter an Order cancelling the hearing scheduled for January 22, 1990 and adopting the recommendations of the original and amended Staff Report. The AG responded to the motion on January 18, 1990 generally opposing any settlement or adoption of Staff's recommendations by the Commission and requesting that a formal hearing be held.

The Commission ruled on the motion by Order dated January 19, 1990, directing that the motion of the utility be denied, but limiting the scope of the hearing to those issues which were disputed by both parties in their written comments to the original Staff Report, i.e. consulting fees, fringe benefits relating to the consulting fees, aerator repairs, interest expense, depreciation, and the salary of Goshen's president. The hearing in this case was held January 22, 1990.

On February 9, 1990, the AG, the North Oldham Homeowners Organization, and Goshen filed a joint motion for a stay or in the alternative an extension of time in which to file briefs and a joint stipulation and recommendation for settlement of this case. By Order dated February 13, 1990, the Commission denied the motion for a stay or extension of time in which to file briefs and further advised the movants to file information no later than

February 16, 1990 detailing the methodology and calculations supporting the joint stipulation or the proposed settlement would be denied. Supplemental information in support of the joint stipulation and recommendation was filed on February 15, 1990.

FINDINGS AND ORDERS

After consideration of the record in this case and being otherwise sufficiently advised, the Commission finds as follows:

The joint stipulation and recommendation by its terms is intended to represent complete settlement of all issues presented by the respective parties to this action and is a product of lengthy negotiations. The joint recommendation is that Goshen be allowed to increase its annual revenues for sewer service by \$42,988, a 32 percent increase over normalized test-year revenues. The recommendation is subject to several conditions as modified by subsequent filings relating to amendments to rate design to reflect the revenue requirements recommended by the parties.

The mathematical calculations submitted in support of the settlement proposed by the parties illustrate that the recommended revenue requirement differs from that recommended by Staff only in the area of rate case expense. At the hearing in this case, Goshen presented invoices to support rate case expense totalling \$18,945.² The total amount of rate case expense agreed to by

² Staff testified at the hearing that, based on its review of the invoices, Staff would recommend that amortization of rate case expense be increased by \$2,677, resulting in a revised revenue requirement of \$45,303. (Transcript of Evidence at 247.)

the parties is \$16,000. In addition, the three year amortization period for rate case expense normally used by the Commission is supplanted by a four year period of amortization. All other expense adjustments proposed by Staff remain unchanged per the terms of the agreement.

The Commission finds that, given the size and complexity of this case, total rate case expense of \$16,000 is reasonable. This figure is \$2,945 below the amount recommended by Staff, but is still within what the Commission considers to be a reasonable range. The three year amortization period for rate case expense is traditionally applied by the Commission because it is believed to represent the average length of time between requests for rate changes by the average utility. Goshen's last rate case was in 1980,³ nine years prior to the filing of the instant case. Therefore, an amortization period of four years for Goshen appears reasonable and appropriate in light of the circumstances of this particular utility.

The Commission further finds that the recommendations and findings contained in the Staff Report of October 24, 1989 and the amended Staff Report of January 8, 1990, as adjusted for rate case expense discussed above, are adequately supported by the evidence of record, are reasonable, and should be adopted as the findings of this Commission in this proceeding. Those recommendations

³ Case No. 7797, An Adjustment of Rates of Goshen Utilities, Inc., a Kentucky Corporation, Goshen, Oldham County, Kentucky.

and findings are hereby incorporated by reference as if fully set out herein.

Having found the recommendations of Staff to be reasonable and the recommendation of rate case expense proposed by the parties to be reasonable, the Commission finds that Goshen should be authorized to increase its rates for sewer service by \$42,988 annually. The Commission further finds that the rates in Appendix A to this Order, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Goshen and will produce gross annual revenues of approximately \$175,893 for sewer service. These rates will allow Goshen sufficient revenue to meet its operating expenses, service its debt, and provide for future equity growth.

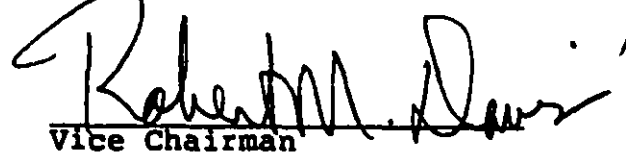
IT IS THEREFORE ORDERED that:

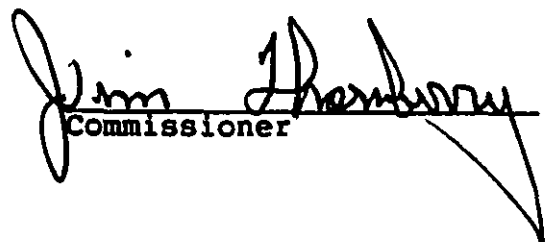
1. The rates proposed by Goshen would produce revenue in excess of that found reasonable herein and are hereby denied.
2. The joint stipulation and recommendation of February 9, 1990, as modified by February 16 and 20, 1990 filings, is accepted.
3. The rates in Appendix A to this Order are the fair, just, and reasonable rates for Goshen and are approved for service rendered on and after the date of this Order.
4. Within 30 days of the date of this Order, Goshen shall file with the Commission its revised tariffs setting out the rates approved herein.

Done at Frankfort, Kentucky, this 22nd day of February, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 89-081 DATED FEBRUARY 22, 1990

The following rates and charges are prescribed for the customers in the area served by Goshen Utilities, Inc., Sewer Division. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Rates: Monthly

First 2,000 gallons	\$7.30 Minimum Bill
Next 13,000 gallons	1.65 per 1,000 gallons
Next 15,000 gallons	1.31 per 1,000 gallons
Next 20,000 gallons	.98 per 1,000 gallons
Over 50,000 gallons	.70 per 1,000 gallons